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JOHN F. DAVIS, CL

In the

Supreme Court of the United States

OCTOBER TERM, 1967

No. 1018

JOHN F. BRYAN, JR. and LESTER N. HAMBRICK,
doing business as TRAKWORK EQUIPMENT COMPANY,
Petitioners,

v.

KERSHAW MANUFACTURING COMPANY,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

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KERSHAW MANUFACTURING COMPANY,
Respondents.

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FIFTH CIRCUIT

Petitioner prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Fifth Circuit, entered in the above-entitled cause on September 27, 1966, Rehearing denied November 2, 1966.

OPINIONS BELOW

The Findings of Fact and Conclusions of Law (R. 50-54) and the Order of the Court enjoining the petitioners (R. 60), reprinted herein as Appendix C, was not reported. The opin-

ion of the Court of Appeals affirming the judgment of the District Court, reprinted herein as Appendix A, is reported at ..... F. 2d ....., 151 U.S.P.Q. 148 (5th Cir. 1966).

JURISDICTION

The judgment of the Court of Appeals (R. 322), printed in Appendix B hereto, was entered on September 27, 1966. A timely petition for rehearing (R. 338) was denied on November 2, 1966. The jurisdiction of this Court is invoked pursuant to 28 U.S.C. § 1254 (1).

QUESTION PRESENTED

1. Does a former employee compete unfairly with a former employer by use of information once held by the former employer in confidence but placed by the former employer in the public domain prior to termination of the employment?

STATUTE INVOLVED

No statute is involved.

STATEMENT OF THE CASE

Respondent, Kershaw Manufacturing Company (plaintiff below), a manufacturer of railroad maintenance equipment, developed an *on-track* railroad track undercutter with a self-loading feature (R. 50, 139).

Petitioner Bryan (defendant below) was employed by petitioner as Chief Engineer and was familiar with the undercutter and all aspects of its development (R. 50). There

was no formal employment agreement between Kershaw and Bryan. Beginning in May 1963, a subsidiary of Kershaw leased several of said undercutters to various railroad companies through the United States where they were used without restriction as to secrecy (R. 21-22).

Beginning in June 1962 co-petitioner Hambrick (defendant below) was engaged in the railroad contracting field (R. 239). Prior to 1964, Hambrick witnessed Kershaw's undercutter in operation and approached a Kershaw salesman relative to purchase of a Kershaw machine (R. 240). The Kershaw machine would not serve Hambrick's purpose without substantial modification (R. 242). In March 1964, Bryan disclosed to Royce Kershaw, Chairman of the Board and Chief Executive Officer of respondent, that he intended to resign and to compete with respondent in the railroad equipment building business by building undercutters (R. 22, 23). Kershaw said that he had no objections to Bryan using his own ideas in the design and construction of such equipment, but that he did not want Bryan to use any ideas that he regarded as his own, specifically, his ideas in the *off-track* undercutter area (R. 260, R. 23). In March 1964, Bryan entered the employ of Hambrick and in the latter part of April, Hambrick and Bryan initiated construction of an on-track undercutter (R. 10). In July 1964, Kershaw was invited to inspect the Hambrick machine then under construction. The finished Hambrick machine is about ½ the weight of the Kershaw machine (R. 242)

On October 30, 1964, respondent brought this action against Bryan and Hambrick d/b/a Trakwork Equipment

Company in the United States District Court for the Northern District of Texas under 28 U.S.C. 1332, alleging:

a. That Kershaw Manufacturing Company had developed a railroad track undercutter with a selfloading feature;

b. That Bryan had been employed by Kershaw and had learned the details of the undercutter in confidence;

c. That after resignation, in violation of a duty, he began to build an undercutter utilizing that information with a view of selling the undercutter in competition with plaintiff; and

d. Prayed for injunctive relief and an accounting for profits (R. 13-18).

Defendants answered:

a. Admitting that an undercutter with a selfloader had been developed by Kershaw while Bryan was employed by Kershaw;

b. Denying any violation of duty owed respondent;

c. Alleging a right to produce even a copy of plaintiff's undercutter, in common with members of the public generally, as the undercutter and the selfloading feature were in public domain almost one year prior to the time that Bryan terminated his employment with respondent; and

d. Alleging that respondent had agreed that Bryan could engage in manufacture of on-track equipment so long as he refrained from operations in the off-track

field which respondent considered his domain (R. 5-13). There was no question but that Bryan had honored this off-track agreement.

The District Court found (R. 50-52):

a. That Bryan acquired knowledge under circumstances such that he should reasonably have concluded that his employer desired the information concerning the development of such undercutter to be kept confidential;

b. That in May 1963, the Kershaw undercutter was publicly used without restriction as to secrecy;

c. That in March 1964, Bryan resigned from his employment with Kershaw to take a position with Hambrick to design and develop railroad equipment;

d. That Bryan took no Kershaw drawings or design information documents relating to the Kershaw undercutter;

e. That Bryan was aided in the development, design and construction of his undercutter by the *information* (trade secrets) he had acquired during his employment with Kershaw, *but at the time Bryan and Hambrick began construction of an undercutter the substance of such information was public knowledge as Kershaw's machine was in the public domain;*

f. That Bryan did not inspect the Kershaw machine or obtain information from it after his employment with Kershaw was terminated;

g. That Hambrick's undercutter was substantially and functionally the same as the Kershaw undercutter, which was in the public domain, but that Hambrick's undercutter was not a "Chinese copy" of the machine; and

h. That Bryan's use of the information then in the public domain was "in breach of confidence" and that by such use Bryan was able to reduce the time necessary for completing his task.

Bryan and Hambrick were enjoined for 2½ years from the date Bryan commenced work on the Hambrick machine from using or disposing of the present machine and from making other such machines or machines incorporating the same self-loading features they had used in their initial machine. Jurisdiction was retained for ascertainment of damages (R. 60-61). The issue of damages has not yet been set for trial by the Court.

On defendant's appeal, the Court of Appeals affirmed, extending the intermediate Texas state court decision in *Atlas Bradford Co. v. Tuboscope Co.*, 378 S.W. 2d 147, 141 U.S.P.Q. 262 (Tex. Civ. App. 1964), to control the present case as to Bryan, and then, departing from said decision, held that earlier Texas Supreme Court decisions, *Hyde Corporation v. Huffines*, 314 S.W. 2d 763, 117 U.S.P.Q. 44

(Tex. 1958), and *K & G Oil Tool and Service Company v. G & G Fishing Tool Service*, 314 S.W. 2d 748, 117 U.S.P.Q. 54 (Tex. 1958), would support the injunction against Bryan's employer, Hambrick.

REASONS FOR GRANTING THE WRIT

1. The decision of the court below directly conflicts with the decisions of this Court in *Sears, Roebuck & Co. v. Stiffel*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (1964).

In those cases this Court re-emphasized the general rule that a publicly marketed and unpatented or uncopyrighted article may be freely copied and explicitly held that a state may not prohibit the copying of such articles. The present case involves use of *public* information no longer secret, by one who did not breach his confidence with his employer by using the information while it was still secret. Classical trade secret law does not prevent such a use. To hold otherwise, as did the court below, flies in the face of *Stiffel* and *Compco*.

Since the "secret" was published by the former employer *prior* to any action complained of on the part of the employee, then cases such as *Servo Corporation of America v. General Electric Company*, 337 F. 2d 716 (4th Cir. 1964), *cert. denied* 383 U.S. 934 (1966), *Winston Research Corporation v. Minnesota Mining & Mfg. Co.*, 350 F. 2d 134 (9th Cir. 1965), and *Schulenburg v. Signatrol, Inc.*, 33 Ill. 2d 379 (Ill. 1965), which on their facts found *Stiffel* inapplicable,

are inapposite. It must be concluded that the decision of the present case is in conflict with *Stiffel* and *Compco*.

2. The decision of the Court below is in direct departure from its decision in *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 150 F. Supp. 843, (E. D. Tex. 1956), *aff'd.* 259 F. 2d 398 (5th Cir. 1958) and directly conflicts with the decision of the Court of Appeals for the Second Circuit in *Picard v. United Aircraft Corp.*, 128 F. 2d 632 (2d Cir. 1942), with the Third Circuit case of *Darsyn Laboratories Inc. v. Lenox Laboratories, Inc.*, 120 F. Supp. 42 (D. N. J. 1954), *aff'd.* 217 F. 2d 648 (3rd Cir. 1954), and with the decision of the Court of Appeals for the Seventh Circuit in *Northrup v. Reish*, 200 F. 2d 924 (7th Cir. 1953). These cases have had a common fact situation: receipt by a confidant of trade secret information; subsequent disclosure of the information to the public by the owner; and then utilization of the information by the confidant in competition with the former owner. It was held that the former confidant was free to use the information the owner had made public. The decisions in the present case by the courts below disallow the former confidant access to that information.

This Court should affirm that an employee has the right to compete with his former employer and to use such information and skill as he has developed in that employ except as they are still secret. A primary object in a free economy is to encourage competition in creativeness leading to economies of manufacture and distribution.

The decision below frustrates efforts to achieve this objective. It places a cloud over all employees now working

in areas utilizing trade secrets and practically creates a state of industrial serfdom. It creates confusion in industrial property law that cries for resolution.

The courts have restrained competition only in those instances where a former employee has violated an agreement with a former employer, or where the former employee has used true trade secrets of the employer with the knowledge that they were trade secrets and that he was charged with the obligation not to use them. Agreements with the former employer not to compete are upheld only when of reasonable scope, limited to both time and place. In the case of implied obligations to refrain from using secrets of the former employer, they have been found to be present only under circumstances where the concepts involved are closely guarded and understood by the employee to be secret, and where notwithstanding this, the employee exhibited bad faith in appropriating and using the secrets for his own purposes. In the present case the Court, having *implied an obligation of confidence* is believed to have erred in failing to hold an implied release of that obligation as to all information placed in the now secret category by the employer.

3. The decision of the Court below wrongly interprets the controlling applicable state law.

Until the decision of the Court below, it was the law in Texas as clearly enunciated by the Texas Supreme Court, that:

> "The subject matter of a trade secret must be secret. Matters of general knowledge in an industry cannot be appropriated by one as his secret. *Matters which are completely disclosed by the goods which one markets*

> *cannot be his secret.* Restatement, Torts, Ch. 36, p. 7. The plaintiff, either directly or through others, widely exhibited, advertised and sold his pole and even in the early stages of its development, the defendants were some of the various people who knew about the secret." (emphasis added) *Wissman v. Boucher*, 240 S.W. 2d 278 (Tex. 1951).

It was further established in Texas Jurisprudence by way of the Court of Appeals for the Fifth Circuit that where a trade secret was publicly disclosed by the owner after he had revealed it in confidence to another, and the confidant had used it after the owner's public disclosure in competition with the former owner,

> "No cause of action for breach of confidence can accrue to the owner of an alleged trade secret by reason of the use or publication of such secret by another, after the owner has revealed his secret to the public by the sale of articles incorporating the secret. *In this case, all of the acts on the part of Defendant of which Plaintiff complains occurred after Kinnear sold the public bits incorporating his alleged trade secret.*" (emphasis added) *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 150 F. Supp. 843, (E.D. Tex. 1956); Aff'd 259 F. 2d 398 (5th Cir. 1958).

But now the Court of Appeals for the Fifth Circuit departs from these views, stating

> "We hold that where an employee has in confidence gained information concerning a machine incorporating trade secrets and has divulged or attempts to divulge the same *after the device has become public by some other means,* the Texas law labels such conduct a breach of confidence and will enjoin the reaping of benefits therefrom. While the Supreme Court of Texas has not been faced with this exact fact situation, a Court of Civil Appeals has decided a case in point, *Atlas Bradford Co.*

v. Tuboscope Co., Tex. Civ. App. 1964, 378 S.W. 2d 147, 141 USPQ 262. In holding the employee vulnerable to injunctive relief, the court stated:

> " 'Where one, as a result of confidential relationship, gains knowledge of the 'trade secret' * * * of another, *prior to its being patented*, and while it is still a 'trade secret'; and after the matter has been patented, uses or discloses the information, our courts deny him resort to the patent on the theory that a person's wrongful acts may deprive him of the right which he would otherwise have as a member of the public (emphasis in the original). Id. at 149, 141 USPQ at 263.' " (emphasis added) (R. 311)

The Court of Civil Appeals in *Tuboscope* cited three Texas Supreme Court cases as authority for this proposition: *Luccous v. Kinley*, 376 S.W. 2d 336, 141 USPQ 78 (Tex. 1964); *Hyde v. Huffines*, 314 S.W. 2d 763, 117 USPQ 44 (Tex. 1958); *K & G Oil Tool & Service v. G. & G. Fishing Tool Service*, 314 S.W. 2d 782, 117 USPQ 54 (Tex. 1958). Not one of these cases supports the statement for which they are cited.

In *Luccous*, a closed corporation principally held by John Luccous took a license from M. M. Kinley Co. to use its patented sand-line cutters on a rental basis. A year later the patent expired. Subsequently, J. C. Kinley purchased the sand-line cutters and all rights and interest in the license agreement from M. M. Kinley Co., and John Luccous sold all of his interest in Luccous Company to a third party. J. C. Kinley then sued John Luccous to enjoin his use of sand-line cutters he alleged to be personally made as a result of knowledge acquired by Luccous under the licensing agreement. Kinley alleged that the tools were trade secrets,

that a confidential relationship existed between the parties by virtue of the licensing agreement, and that Luccous was breaching his duty to Kinley in the use of such tools.

The Supreme Court of Texas said Luccous could not be enjoined for such use. There was no trade secret because the information defendants had appropriated had long since been disclosed to the public by issuance of the patent on which the contractual relationship between the parties had been based. It made no difference that the information had been acquired under the agreement and not by study of the patent. The Court said that while it had enjoined persons from the right to avail themselves of the effective dedication of information to the public by the patentee in the *Huffines* and *K & G Oil Tool Company* cases, those holdings had been based on the theory that a person's wrongful acts might deprive him of the right he would otherwise have had as a member of the public.

The Court pointed out that in *Hyde Corporation v. Huffines*, the defendant, as a result of a contractual relationship had gained knowledge of plaintiff's invention prior to its being disclosed by a patent issuing on it and *while it was still a trade secret*. Defendant in that case had utilized the information so acquired to his own advantage *before* the owner of the information had disclosed it to the public. By getting a head start on the public in this improper manner he had gained a marketing advantage which the Court would nullify by injunction. The *Huffines* situation was not present in *Luccous*, said the Court, because in *Luccous* the subject knowledge had long since been in the public domain.

The Court also distinguished *K & G Oil Tool Service Company v. G & G Fishing Tool Service.* In that case the defendant had not only gained information of plaintiff's trade secret and used it to plaintiff's detriment *prior* to plaintiff's disclosing some of it in a subsequently isstfing patent, *but it had specifically contracted that during the time it handled the tool in question it would not disassemble the tool.* It was mutually understood that the purpose of such agreement was to guard against anyone's determining the internal construction of the fishing tool by examining the interior thereof. *Notwithstanding the agreement, the defendant had disassembled the tool to examine it.* The Supreme Court had held in that case that the plaintiff was not deprived of his cause of action for defendant's breach of confidence simply because some of the plaintiff's secrets were *later* disclosed by the issuance of the patent.

In the present case, as in *Luccous*, but not in *Huffines* or *K & G Oil Tool Co.*, the information used by the defendant was acquired properly and necessarily for Kershaw's benefit in the course of defendants employment. To the extent that there was any use, it occurred *after* the information was in the public domain.

The *Tuboscope* case, on which the Court of Appeals here relies, is further inapposite to the case at bar, as that case involved a *written agreement* not to use or disclose plaintiff's trade secrets *whether "patented or not".*

The decisions in *Huffines, K & G Oil Tool Co.*, and *Tuboscope* relied upon by the Court below and the line of de-

cisions that those cases follow, notably headed by *Adolph Gottscho, Inc. v. American Marketing Corporation*, 18 N.J. 467, 105 USPQ 398 (Sup. Ct. N.J. 1955) and *Smith v. Dravo Corp.*, 203 F. 2d 369 (7th Cir. 1953) all involved a breach of confidence that disclosed what was a trade secret *before* the secret was revealed to the public by the owner. These decisions are not questioned here. They just do not apply to the fact situation at bar. Rather the *Boucher* and *Kinnear-Weed* decisions, as reflected in *Luccous*, are dispositive of the case.

In the case of *Gallowhur Chemical Corp. v. Schwerdle*, 117 A. 2d (N.J. Super. Ct. 1956), Schwerdle, an employee of Gallowhur, had *expressly* contracted not to disclose confidential information. Schwerdle left Gallowhur's employment with full knowledge of certain trade secrets. After a patent to Gallowhur disclosing the trade secrets issued, the company then employing Schwerdle began to use the trade secrets. Gallowhur sought to enjoin this use as a breach of confidence. Thus the facts were on all fours, in essence, with the present case, except that it was an even harder issue by reason of the express contract. The Court stated:

> "Plaintiffs urge a trust concept as affecting the status of these defendants, arguing that the individual defendants here were fiduciaries. Accepting that hypothesis, let us pose a question. Where the fiduciary has kept his trust until after the inventor has voluntarily revealed its subject matter, should the fiduciary be penalized in a trade secret case (by contrast with the rest of the public) for having had the fiduciary status and faithfully maintained it? And still holding to the hypothesis of trust, is not the trust itself terminated by the trustor's publication? The answer appears to be obvious."

Here too, it would appear obvious that the Court below should have corrected the error of the District Court in concluding that a former employee who had "faithfully maintained" his trust until after his employer disclosed the subject secret should nonetheless be denied access to that information.

4. The question presented in this case is of great public importance.

In this age of technology, a high percentage of our citizens are employed as engineers, scientists or technologists. It is important that there be no undue restraints on technological developments. The courts below, by holding that an employee may not use information after it is published by a former employer, cast a cloud over the future of each and every technological employee. He is shackled to his present technological employment. Under this decision an employee may not leave one employer and engage in the new employment in the same field without being subject to action by the former employer, notwithstanding that the subject matter of the work in the former employment is in the public domain and notwithstanding his good faith.

Under the rule apparently established by the courts below, it is not seen how any reasonable test could be applied in determining the extent of a former employee's obligation. As a practical matter, a former employee is placed in a position of limbo for an indeterminable period of time concerning all subject matter that he first learned or helped develop with his former employer. This is true even though

the employer has made his technology freely available to the rest of the world. Paradoxically, the former employee is restrained, because of his increased expertise, from further advancement in the industry in which he is most productive. Trade is unduly restrained because the dissemination of ideas, processes, and methods is diminished; and competition and society suffers.

And under the rule of law apparently established by the courts below, no company, can, with any confidence, hire technological personnel who had ever been employed by a competitor and use such personnel in the area of technology where his training makes him most useful. The bargaining position of the employee wishing to change employers is weakened. His personal freedom to pursue a preferred course of livelihood is limited. Consequently, any change in employment for technological personnel, under the rule of law as established by the courts below, will generally involve (i) a complete change of occupation as is now defendant Bryan's lot, and (ii) a pronounced and uncalled for personal sacrifice of dearly gained ability and remuneration therefor.

It is submitted that unless this court give needed direction in the present case, a rule will be promoted which is inconsistent with and detrimental to national interests as well as individual freedoms. The resulting restraint will be most damaging to the individual and to the public. The law as it now stands with the decision of the courts below will make possible industrial serfdom at the whim of an employer and will impair technological progress.

SUMMARY

Since the decision of the court below is so at odds with the decisions of this Court in *Compco* and *Stiffel*, as well as in conflict with decisional law on similar facts in other circuits, departs from the law of the State it purports to apply, and presents a question greatly in need of resolution in the public interest, this petition for a Writ of Certiorari should be granted.

Respectfully submitted,

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APPENDIX A

In the

United States Court of Appeals

FOR THE FIFTH CIRCUIT

No. 23017

JOHN F. BRYAN, JR. and LESTER N. HAMBRICK
d/b/a TRAKWORK EQUIPMENT COMPANY,
Appellants-Appellees,

versus

ROYCE KERSHAW, et al.,
Appellees-Appellants.

(AND REVERSE TITLE)

Appeals from the United States District Court for the Northern District of Texas

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(September 27, 1966.)

Before GEWIN and THORNBERRY, Circuit Judges, and WEST, District Judge.

THORNBERRY, Circuit Judge: This is an appeal from an order of the United States District Court for the Northern District of Texas enjoining appellants, Bryan and Hambrick, from duplicating or using to commercial

advantage until September 21, 1966 a "railroad track undercutter of the type having a self-loading feature" which they had built. Appellee Kershaw Manufacturing Company, hereafter referred to as Kershaw, attacks by cross-appeal the limited duration of the injunction.

Kershaw is a manufacturer of railroad maintenance equipment. Prior to this action, it had developed a "railroad track undercutter with a special self-loading feature." At the time of such development, appellee Bryan was employed by Kershaw as chief engineer of research and development of railroad equipment and was familiar with the undercutter and all aspects of its development. The Kershaw undercutter is a sizeable, complex, and expensive machine that required four to five thousand man-hours for its development. In May, 1963, a subsidiary of Kershaw leased a number of the undercutters to various railroad companies. In early 1964, appellant Hambrick, having recently entered the railroad maintenance field, attempted unsuccessfully to purchase a Kershaw undercutter. Subsequently, Hambrick persuaded Bryan to come to work for him and to design similar machinery. Upon termination of his employment with Kershaw, Bryan agreed not to encroach upon Kershaw's developments in the off-track field, and in turn was told that he was free to pursue application of his "own ideas." Bryan immediately began the design of an on-track undercutter found by the district court to be "substantially and functionally the same as the Kershaw undercutter" although not a "Chinese copy."[1]

[1] Chinese Copy: an exact imitation or duplicate made without discrimination reproducing defects as well as desired qualities. Webster's Unabridged Third New International Dictionary (1964).

Upon suit by Kershaw, the district court, sitting without a jury, found that the development and design of the Kershaw undercutter were trade secrets, that Bryan obtained knowledge of the same under circumstances from which he should have reasonably concluded that Kershaw desired such secrets to remain confidential; and that he made use of this knowledge in the development of the Hambrick undercutter in breach of confidence. From these facts, the Court concluded that Kershaw was entitled to relief and enjoined Bryan and Hambrick from duplicating, using or selling their undercutter until September 21, 1966, the injunction running for the time found necessary to remove the competitive advantage gained through the illegally used trade secrets. For the reasons set out below, we AFFIRM.

I.

Appellants raise objections to numerous findings of fact made by the court below. The evidence in the record reveals that all factual contentions raised were hotly contested and supported by considerable evidence on each side. It is a settled rule of appellate review that factual findings must stand on appeal unless clearly erroneous. Thus, the reviewing court should reverse only when, after a careful examination of the entire record, it is left with a firm conviction that a mistake has been committed and injustice done. *Glasscock v. United States*, 4th Cir. 1963, 323 F. 2d 589; *Cedillo v. Standard Oil Co.*, 5th Cir. 1961, 291 F. 2d 246, cert. denied 368 U.S. 955, 82 S. Ct. 397, 7 L. Ed. 2d 387; *Squirrel Brand Co. v. Barnard Nut Co.*, 5th Cir. 1955, 224

F. 2d 840, cert. denied 350 U.S. 995, 76 S. Ct. 545, 100 L. Ed. 860. Furthermore, the burden assumed by the party attempting to show such mistake is especially strong where the findings are primarily based upon oral testimony and the trial judge has viewed the demeanor and judged the credibility of the witnesses. *Horton v. United States Steel Corp.*, 5th Cir. 1961, 286 F. 2d 710; *Galena Oaks Corp. v. Schofield*, 5th Cir. 1954, 218 F. 2d 217.

Appellants claim that the trial court erred in finding that Bryan breached an obligation of confidence owed to appellee. Furthermore, appellants assert that this determination is a conclusion of law and not a finding of fact, and therefore it is not protected by the clearly erroneous standard upon review. Notwithstanding this contention, we feel that the finding of a breach of confidence is one of ultimate fact and that the finding made is neither clearly erroneous, nor based upon an incorrect view of the Texas law.

Appellant Bryan, during the development of the Kershaw undercutter, was head of research and development at Kershaw, took part in all phases of the machine's development, and was familiar with its market potential. Evidence was presented showing that Bryan orally agreed as a condition of employment that all ideas developed while he was an employee would be the property of Kershaw. It is also clear from the record that Bryan was aware of Kershaw's willingness to protect his development rights through resort to the courts. From such evidence the trial judge reasonably found that Bryan knew or should have known that Kershaw considered his knowledge of the undercutter confidential.

The other contested findings of fact made by the trial judge likewise find ample support in the record. Being ever mindful of the proper function of the Courts of Appeal when reviewing fact findings of the trial court, we cannot say that any here subject to attack are clearly erroneous.

II.

Because of the view we take concerning the correctness of the judgment as to each appellant, it will aid clarity if we discusss separately the cases against Bryan and Hambrick. It is important to note that this controversy is in the federal courts solely by virtue of our diversity jurisdiction. The duty thus rests upon us to decide the substantive issue under the applicable local law—in this case the law of Texas. 28 U.S.C. §1652; *Erie R. Co. v. Tompkins*, 1938, 304 U.S. 64, 58 S. Ct. 817, 82 L. Ed. 1188; *Ruhlin v. New York Life Insurance Co.*, 1939, 304 U.S. 202, 58 S. Ct. 860, 82 L. Ed. 12.

The Injunction Against Bryan

As stated earlier, the trial court was warranted in finding that Bryan knew or should have known that the information acquired by him while in Kershaw's employ was confidential. Appellants assert, however, that Bryan's duty to refrain from making use of this information ceased when the Kershaw undercutter was made public. Thus, they reason, there was no breach of confidence and no basis for injunctive relief. This, we conclude after thorough research, is not the Texas law. We hold that where an employee has

in confidence gained information concerning a machine incorporating trade secrets and has divulged or attempts to divulge the same after the device has become public by some other means, the Texas law labels such conduct a breach of confidence and will enjoin the reaping of benefits therefrom. While the Supreme Court of Texas has not been faced with this exact fact situation, a Court of Civil Appeals has decided a case in point, *Atlas Bradford Co. v. Tuboscope Co.*, Tex. Civ. App. 1964, 378 S.W. 2d 147. In holding the employee vulnerable to injunctive relief, the court stated:

> [W]here one, as a result of a confidential relationship, gains knowledge of the "trade secret" of another, *prior to its being patented*, and while it is still a "trade secret"; and after the matter has been patented, uses or discloses the information, our courts deny him resort to the patent on the theory that a person's wrongful acts may deprive him of the right which he would otherwise have as a member of the public (emphasis in the original). *Id* at 149.

A federal court is not compelled in all instances to follow the decisions of an intermediate state court on questions of local law. However, in the absence of strong indications that the state's highest court will not adopt the same view, such holdings are to be considered determinative. *Fidelity Union Trust Co. v. Field*, 1940, 311 U.S. 169, 61 S. Ct. 176, 85 L. Ed. 109; *National Surety Corp. v. Bellah*, 5th Cir. 1957, 245 F. 2d 936.

Language in recent Texas Supreme Court cases further supports the view that appellant Bryan was properly enjoined. *Hyde Corporation v. Huffines*, 314 S.W. 2d 763, and *K & G Oil Tool and Service Co. v. G & G Fishing Tool*

Service, 314 S.W. 2d 782, are companion cases decided by the Texas court in 1958. In *K & G Oil Tool*, the defendant licensee gained confidential information through the licensing relationship and later appropriated such knowledge to its own use. Whether the information thus appropriated constituted a trade secret was hotly contested. The Texas Supreme Court, however, clearly stated that the breach of confidence and the damage caused thereby, not a continuing existence of complete secrecy of the information, was the controlling issue. In support of this view, the court cited with approval an opinion of the United States Court of Appeals for the Seventh Circuit.[2]

> How did defendant learn of plaintiff's design? And this, we regard as the proper test.
>
> * * *
>
> It is unquestionably lawful for a person to gain possession through proper means, of his competitor's products and, through inspection and analysis, create a duplicate, unless, of course, the item is patented. But the mere fact that such lawful acquisition is available does not mean that he may, through a breach of confidence, gain information in usable form and escape the efforts of inspection and analysis. 314 S.W. 2d at 787-88.

In *Hyde Corporation v. Huffines, supra*, a licensor sued to enjoin his licensee from appropriating to his own use information concerning mechanical features of the licensor's invention. During the pendency of the suit, the information was made public through issuance of a patent. The Texas court held that the licensee could be enjoined. As in *K & G*

[2] *Smith v. Dravo Corporation*, 7th Cir. 1953, 203 F. 2d 369.

Oil Tool, it is apparent that the gravamen of the holding was the breach of confidence and not the presence or absence of continued secrecy of the information subsequent to the establishment of the confidence.

In light of the holding of the Court of Civil Appeals and the language of the two Texas Supreme Court cases discussed, we hold that under Texas law appellant Bryan was properly enjoined.

The Injunction Against Hambrick

The Texas law as to the vulnerability of a subsequent employer to injunction is not as readily ascertainable. The Texas Civil Appeals decision discussed above might indicate that Hambrick cannot be enjoined. However, we feel that there is convincing evidence that Texas' highest court would not follow that decision if presented with the facts of the present case.

First: The two-page opinion of the civil appeals court in *Atlas* does not set out in any detail the factual circumstances of the controversy involved. This is particularly true concerning the relation between the breaching employee and his new employer. Did the latter woo the employee away from his original employer? Did he do so in an effort to gain the specific knowledge confidentially disclosed to the employee? Or was the new employer entirely free of any connection with the circumstances of the employee's breach? As the Texas Supreme Court expressly stated in *Hyde*, the issuance of an injunction in cases such as this depends largely upon the facts of the particular case.[3] In

[3] 314 S.W. 2d 763, 778 (1958).

view of the failure of the Texas Civil Appeals Court to adequately lay a factual predicate for its conclusion that the new employer may not be enjoined, it is difficult to attribute precedential value to that holding. This assessment is further substantiated by the fact that the court cited no authority in support of its conclusion as to the new employer.

Second: There are strong indications in both *Hyde* and *K & G Oil Tool* that the Texas Supreme Court would enjoin Hambrick upon the facts of the present case. In *Hyde*, the court discusses the propriety of running an injunction beyond the date of disclosure by patent and states:

> [T]he licensee who had abused a confidence would thus obtain a marketing advantage or head start as compared to the patentee or any manufacturer or processor licensed by him after the issuance of the patent. 314 S.W. 2d at 773.

Later in the opinion the court continues:

> One who has obtained prior knowledge of a device in confidence may well establish a manufacturing head start, so to speak. He may not and often does not stand on the basis of economic equality with competing manufacturers or the public at large at the date of the public disclosure of the claims in the patent application. For this reason relief by way of injunction should not arbitrarily be denied because the trade secrets contained in an application for a patent have been made public. 314 S.W. 2d at 778.

This language indicates that the creation of a marketing advantage by virtue of a breach of confidence weighs heavily in favor of injunctive relief. Indeed, it can be said that the unfair advantage gained is the damage that the

injunction is designed to cure. The trial court in the instant case found that Bryan's breach of confidence resulted in a competitive advantage for Hambrick. The express purpose of the injunction was to remove that advantage.

Language in *K & G Oil Tool* is also instructive. This is especially so because of several similarities between the facts in that case and the present case. In *K & G Oil Tool*, the Texas court found that the oil well fishing tool involved was a complicated device. As in the case at hand, the device had been leased prior to the breach of confidence. Furthermore, the jury found in response to a special issue that the confidential information divulged *could have been obtained by examination of the tool.* Because of this finding, the Texas Civil Appeals Court denied injunctive relief. The Supreme Court of Texas reversed, holding that this public availability did not remove the illegality of the actual method by which the information was gained. Implicit in the court's line of reasoning is a recognition that the placing of a machine in the public domain does not necessarily remove the advantage to be gained from use of confidential information concerning its design and development. This same recognition is apparent upon the face of the record in the present case as the trial judge found a competitive advantage in spite of a prior placing of the undercutter on the public market. Viewing the record and the findings as a whole, it is evident that the trial judge felt the Kershaw undercutter possessed characteristics entitled to protection despite its public exposure, and that the presence of an unfair competitive advantage controlled her judgment.

We feel that the reasoning of the Texas court in *K & G Oil Tool* supports this conclusion.[4]

Still further support may be gained from the language of *K & G Oil Tool*. In support of its holding, the Texas court cites with approval and quotes at length numerous cases from other jurisdictions, both federal and state. Of particular interest is the following quotation from *A. O. Smith v. Petroleum Iron Works Co.*, 6th Cir. 1934, 73 F. 2d 531, 538:

> The mere fact that the means by which a discovery is made are obvious cannot advantage the *competitor* who by unfair means, or as *the beneficiary of a broken faith*, obtained the desired knowledge without himself paying the price in labor, money, or machines * * * (emphasis added) 314 S.W. 2d at 788.

A further quotation from the *Smith* case is instructive:

> The defendant had sought in many ways to obtain the knowledge necessary to enable it to compete successfully with the plaintiff in the making of pressure vessels. It finally engaged Hawthorne who for many years had been employed in the plaintiff's welding department, and who was under express contract not to divulge any information received by him during his confidential relationship to the plaintiff. The conclusion is inescapable that the defendant knew of Hawthorne's employment in a confidential capacity. 73 F. 2d at 539.

Thus the language quoted by the Texas court arose in the context of a factual situation similar to the one at

[4] This point would have been clearer if the trial judge had expressly found that the information illegally divulged had not entirely lost its trade secret aspects through the marketing of the undercutter by Kershaw. Viewing the record as a whole, however, we do not feel that the lack of such an express finding calls for reversal.

hand. It involved an injunction against a new employer as well as the employee in whom confidence was actually reposed. It can hardly be doubted that Hambrick was "a beneficiary of a broken faith," even if the actual breach was not his personal act.

One further aspect of *K & G Oil Tool* should be noted. The defendant licensee in that case was a partnership. Not all of the partners were *personally* involved in the breach, and the non-breaching partners argued that they could not be enjoined as individuals for the wrongful acts of their partners. The court, realizing the futility of restraining only those who actually were involved in the breach, refused to modify the trial court's total injunction. In the instant case, Hambrick's business, a sole proprietorship, received the profit of Bryan's breach. The same futility would result from a partial injunction in this case as would have resulted in the Texas case. We feel confident that the Texas court would agree.

Third: Our holding is supported not only by language in prior opinions of the highest Texas court, but also by logic and equitable reasoning. It is clearly the Texas law that Bryan was properly enjoined. In the face of such a determination, and in light of the purpose of the injunctive relief, it would be a vain act indeed to allow Hambrick to reap the benefits of the illegally gained competitive advantage. To enjoin Bryan alone at this stage would offer no protection whatsoever when protection is clearly called for. To allow Hambrick to go unrestrained because of a lack of privity between him and Kershaw would be to allow narrow techni-

calities here to defeat the very purpose of equitable relief. Surely a court of justice is not so easily distracted.

We have given due consideration to the other points of error raised by appellants and consider them to be without merit.

III.

We now turn to a consideration of appellee's cross-appeal complaining of the limited duration of the relief granted. Appellee asserts that the trial judge was not free to grant such relief since only a permanent injunction was expressly prayed for in his petition. He claims that under Texas law only such equitable relief may be granted as is specifically prayed for, and that the trial judge was bound to follow local law.

Even if the appellee's interpretation of the Texas law be correct, we do not deem it controlling. The federal courts have struggled long and hard with problems concerning classification as substance or procedure for purposes of the Erie doctrine. Appellee's contention, however, is nothing more than an attack upon the sufficiency of the pleading. Questions of this nature are determined by federal, not local law. E.g., *Ordner v. Reimold*, 10th Cir. 1960, 278 F. 2d 532; *Mueller v. Rayon Consultants, Inc.*, D.C.N.Y. 1959, 170 F. Supp. 555; 1 *Barron & Holtzoff* (Wright ed.), §138. Furthermore, the question of the trial judge's authority to award the relief granted is controlled by the recent United States Supreme Court opinion in *Hanna v. Plummer*, 1964, 380 U.S. 460, 85 S. Ct. 1136, ... L. Ed. 2d .... That case in-

volved a direct conflict between a federal rule and a state rule concerning the proper method of service of process. The Court, in holding that the federal rule controlled, stated:

> Erie and its offspring cast no doubt on the long recognized power of Congress to prescribe housekeeping rules for federal courts even though some of those rules will inevitably differ from comparable state rules. * * * "When, because the plaintiff happens to be a non-resident, such a right is enforceable in a federal as well as in a state court, the forms and mode of enforcing the right may at times, naturally enough, vary because the two judicial systems are not identic." * * *. Thus, though a court, in measuring a Federal Rule against the standards contained in the Enabling Act and the Constitution, need not wholly blind itself to the degree to which the Rule makes the character and result of the federal litigation stray from the course it would follow in state courts, * * * it cannot be forgotten that the Erie rule, and the guidelines suggested in York, were created to serve another purpose altogether. To hold that a Federal Rule of Civil Procedure must cease to function whenever it alters the mode of enforcing state created rights would be to disembowel either the Constitution's grant of power over federal procedure or Congress' attempt to exercise that power in the Enabling Act. Id at 473-74, 85 S. Ct. at 1145, ... L. Ed. 2d at .....

In the case at hand there is a conflict between federal and state rules as to the requirements of pleading. Federal rule 54(c) provides in part:

> Except as to a party against whom a judgment is entered by default, every final judgment shall grant the relief to which the party in whose favor it is rendered is entitled, even if the party has not demanded such relief in his pleadings.

In contrast, the Texas rule requires that:

> The judgment of the court shall conform to the pleadings * * * Tex. Rule Civ. Proc. 301.

We hold that the stricter requirements of pleading evidenced by the Texas rule and practice are not controlling in the federal courts and the trial court's decree was soundly based upon its powers under the federal rule.[5] The judgment in all parts is accordingly AFFIRMED.

---

[5] The trial court's decree is further supported by the following language in Guaranty Trust Co. v. York, 1945, 326 U.S. 99, 65 S. Ct. 1464, 89 L. Ed. 2079:

> State law cannot define the remedies which a federal court must give simply because a federal court in diversity jurisdiction is available as an alternative tribunal to the State's courts. Contrariwise, a federal court may afford an equitable remedy for a substantive right recognied by a State even though a State court cannot give it. 326 U.S. at 106, 65 S. Ct. at 1468-69, 89 L. Ed. at .....

APPENDIX B

In the

United States Court of Appeals

FOR THE FIFTH CIRCUIT

October Term, 1965

No. 23017

D. C. Docket No. CA 3-759

JOHN F. BRYAN, JR. and LESTER N. HAMBRICK
d/b/a TRAKWORK EQUIPMENT COMPANY,
Appellants-Appellees,

versus

ROYCE KERSHAW, et al.,
Appellees-Appellants.

(AND REVERSE TITLE)

Appeals from the United States District Court for the Northern District of Texas

---

Before GEWIN and THORNBERRY, Circuit Judges, and WEST, District Judge.

JUDGMENT

This cause came on to be heard on the transcript of the record from the United States District Court for the Northern District of Texas, and was argued by counsel;

ON CONSIDERATION WHEREOF, It is now here ordered and adjudged by this Court that the judgment of the said District Court in this cause be, and the same is hereby, affirmed;

It is further ordered and adjudged that the appellants-appellees, John F. Bryan, Jr. and Lester N. Hambrick, d/b/a Trakwork Equipment Company, be condemned, in solido, to pay the costs of this cause in this Court for which execution may be issued out of the said District Court.

September 27, 1966

Issued as Mandate: NOV 10 1966

APPENDIX C

In the

UNITED STATES DISTRICT COURT

FOR NORTHERN DISTRICT OF TEXAS
DALLAS DIVISION

D. C. Docket No. CA 3-759

JOHN F. BRYAN, JR. and LESTER N. HAMBRICK
d/b/a TRAKWORK EQUIPMENT COMPANY,
Appellants-Appellees,

versus

KERSHAW MANUFACTURING COMPANY,
Appellees-Appellants.

FINDINGS OF FACT

(Number and title omitted) (Filed: Aug. 25, 1965)

1. Plaintiff Kershaw Manufacturing Company is a resident of the State of Alabama; defendants John F. Bryan, Jr., and Lester N. Hambrick are residents of the State of Texas; the amount in controversy exceeds the sum of Ten Thousand Dollars ($10,000.00).

2. Prior to March 1964 the defendant John F. Bryan, Jr., hereafter called "Bryan", was employed by plaintiff Kershaw Manufacturing Company, hereinafter called "Kershaw", in a position of trust and confidence as its Chief Engineer of Research and Development of railroad equipment.

3. While in the employ of Kershaw, the defendant Bryan worked on the development of an undercutter with a self-

loading feature which Kershaw was developing during said time. The entire machine was a trade secret and not known to the public prior to May 27, 1963.

4. While in the employ of Kershaw, Bryan acquired knowledge of the specifications and details of the undercutter, said information being a trade secret of Kershaw.

5. The above trade secrets acquired by Bryan were obtained under circumstances of such a character that he should reasonably have concluded that his employer desired said information concerning the development of said undercutter to be kept confidential.

6. Kershaw's undercutter with self-loading feature is a sizeable, complex and expensive apparatus of such a technical nature that much ingenuity, work and money had to be applied by Kershaw in order to develop it into a practical and successful device which could be profitably marketed for use in railroad track maintenance.

7. Four to five thousand man hours (100 to 125 weeks of 40 hour weeks) were required to develop the Kershaw undercutter with self-loading features and a reasonably skilled engineer or one generally skilled in the art could have fabricated a machine similar to the Kershaw undercutter in 2 to 2½ years.

8. On March 13, 1964 the defendant Bryan resigned from his employment with Kershaw to take a position with Lester N. Hambrick, hereafter called "Hambrick", working with the latter in the design and the development of railroad equipment.

9. As early as May 27, 1963 the Kershaw undercutter was publicly used without restriction as to secrecy.

10. Construction of an undercutter by Hambrick and Bryan was initiated in the latter part of April 1964.

11. Hambrick's undercutter was substantially and functionally the same as the Kershaw undercutter, which was then in the public domain, but said Hambrick's undercutter was not a "Chinese" copy of the Kershaw machine.

12. Bryan took no Kershaw drawings or Kershaw design information-documents relating to the Kershaw undercutter when he left the employment of Kershaw.

13. Bryan was aided in the development, design, and construction of his undercutter by the information (trade secrets) he had acquired during his employment with Kershaw; at the time Hambrick and Bryan began construction of an undercutter the substance of such information was of public knowledge by virtue of the Kershaw machine being in the public *domain*, but Bryan did not inspect the Kershaw machine or obtain further information from it after his employment with Kershaw was terminated.

14. Through the use of such information and in breach of confidence Bryan was able to reduce the time necessary for design, development, and construction of Hambrick's undercutter, thus resulting in an advantage over competitors.

15. Kershaw's undercutter is of such a character that a reasonably skilled engineer or one generally skilled in the art without knowledge of its development details could

not have fabricated Hambrick's undercutter in the time period in which said machine was fabricated.

Conclusions of Law

1. The court has jurisdiction of this cause under 28 U.S.C.A. paragraph 1332.

2. One who discloses or uses another's trade secrets without privilege to do so is liable to the other if his disclosure or use constitutes a breach of confidence reposed in him by the other in disclosing the secret.

3. An employee may remain under an obligation of trust and confidence even after (1) the final product concerned in the trade secret is made public, and (2) the employee leaves his employment, particularly in instances where the employee's knowledge of the trade secret gained during employment is such as gives him a greater competitive advantage against his employer than the general public would have by virtue of the fact that the product itself has been publicly disclosed.

4. A trade secret may consist of any formula, pattern, device, or compilation of information which is used in one's business and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be a process of manufacturing, treating, or preserving materials or a pattern for a machine. A trade secret is a process or device for continuous use in the operation of a business. It relates to the formula for the production of goods as well as to the goods themselves.

5. The existence of a lawful means for acquiring the information, such as through inspection of the article in the public domain, does not preclude recovery where it appears that said means were not used but where instead the information was obtained through breach of a known confidence. The confidential relatinship may be that of employer-employee.

6. An injured party is not required to rely upon an express agreement to hold a trade secret in confidence, and the injured party's right to injunction does not cease against one who has obtained secrets or breach of confidence even after the invention itself has been publicly disclosed.

7. Where it appears that through violation of a confidential relationship the defendant secured and wrongfully exploited plaintiff's trade secrets an injunction will lie.

8. An injunction being equitable and designed to deter and not to punish, where it appears that the maximum time required to develop a machine similar to the Kershaw undercutter with self-loading feature was two and a half years the plaintiff is only entitled to an injunction until November 1, 1966 (2½ years from the date work commenced on the Hambrick machine.)

/s/ SARAH T. HUGHES
United States District Judge

Order and Injunction

(Number and Title Omitted) (Filed September 10, 1965)

This cause having come on for further hearing, and the issues herein (except as to damages) having been tried

before the court without a jury, and the evidence of all parties hereto having been heard, and the court having duly made findings of fact and conclusions of law, it is hereby ORDERED, ADJUDGED AND DECREED by the court as follows:

I.

Defendant's motion for summary judgment as against plaintiff Royce Kershaw only is sustained, and judgment is hereby entered that the said Royce Kershaw, plaintiff, take nothing by his action herein, either by way of injunctive relief or by way of damages, against any of defendants. Defendants' motion for summary judgment as against plaintiff Kershaw Manufacturing Company is hereby overruled.

II.

The prayer for injunction brought by plaintiff Kershaw Manufacturing Company against defendants, John F. Bryan, Jr., and Lester N. Hambrick, is hereby granted, and said defendants, their agents, servants, and privies, and each of them, are hereby until September 21, 1966, enjoined and restrained, directly or indirectly:

(A) From selling, leasing or otherwise using or disposing of that undercutter with a self-loading feature which defendants admitted they built in or near Dallas, Texas, prior to institution of this suit;

(B) From duplicating and making other copies of said undercutter; and

(C) From beginning the construction of any other machinery which incorporates substantially the same self-loading features as those which defendants used in constructing their initial undercutter.

III.

Jurisdiction in this cause is retained for the purpose of giving full effect to this injunction, for the purpose of ascertaining the damages, if any, which plaintiff Kershaw Manufacturing Company has suffered in the premises, and for the purpose of making such other orders and decrees or taking such further actions, if any, as may be necessary or appropriate.

DECREED this 10 day of September, 1965.

/s/ SARAH T. HUGHES
Judge

A True Copy
ATTEST: September 29, 1965
RAMELLE HAMILTON, Clerk,
By /s/ PEGGY HOPKINS, Deputy

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In the

Supreme Court of the United States

OCTOBER TERM—1966

No. 1018

JOHN F. BRYAN, JR. AND
LESTER N. HAMBRICK, D/B/A
TRAKWORK EQUIPMENT COMPANY

Petitioners,

v.

KERSHAW MANUFACTURING COMPANY

Respondent.

RESPONDENT'S BRIEF

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TRAKWORK EQUIPMENT COMPANY

Petitioners,

v.

KERSHAW MANUFACTURING COMPANY

Respondent.

RESPONDENT'S BRIEF

To The Honorable The Supreme Court of The United States:

Respondent respectfully files this brief in opposition to the Petition for a Writ of Certiorari filed herein seeking a review of the judgment of the United States Court of Appeals for the Fifth Circuit, which affirmed the injunctive relief granted Respondent by the United States District Court for the Northern District of Texas, Dallas Division. As

grounds for opposing said petition, Respondent respectfully shows the Court the following matters:

QUESTION PRESENTED

Respondent is dissatisfied with the formulation by Petitioners of the "Question Presented" for review under the terms and circumstances of this record. Respondent shows that the *holding* of the Court of Appeals about which complaint is actually made by Petitioners herein, as paraphrased from said Court's opinion, is as follows:

> "Where an employee has in confidence gained information concerning a machine incorporating trade secrets and has divulged or attempts to divulge the same after the device has become public by some other means, the Texas law labels such conduct a breach of confidence and will enjoin the reaping of benefits therefrom. The breach of confidence and the damage caused thereby, not a continuing existence of complete secrecy of the information, is the controlling issue."

Respondent submits that the "Question Presented" by Petitioners in their Petition does not correctly track the above holding. To the extent it does not, it does not conform to the terms and circumstances of this particular case. The gravamen of Respondent's complaint, as plaintiff in the trial court, was breach of confidence by a former employee (Petitioner Bryan) in utilizing trade secrets of his former employer (Respondent Kershaw) so as to unfairly benefit another (Petitioner Hambrick.) The record clearly supports the trial court's "Finding of Fact" that information divulged by said former employee constituted "trade secrets" of his

employer and was not such information as might have been available generally to the public by virtue of the fact that the machine had been placed in the public domain.

STATEMENT OF THE CASE

Respondent is dissatisfied with the incompleteness of Petitioners' account of the record under their "Statement of the Case." The essential complaint of Respondent is that said Statement fails to incorporate several important "Findings of Fact" made by the trial court for which the Court of Appeals found ample support in the record. The contents of said omitted "Findings of Fact" (being contained in Findings 3, 4, 6, 7, 10, 14 and 15 reprinted on pages C-1 through C-4 in Appendix C of the Petition) may be summarized as follows:

While in the employ of Kershaw, Bryan worked on the development of a machine and acquired knowledge of its specifications and details which were trade secrets of Kershaw. The machine in question was a sizable, complex and expensive apparatus of such a technical nature that much ingenuity, work and money had to be applied by Kershaw in order to develop it into a practical and successful device, which could be profitably marketed for the use for which it was intended. Between four and five thousand man hours were expended for this purpose and a reasonably skilled engineer could not have fabricated a similar machine in less than two years. Nonetheless, in about one month after termination of his employment with Kershaw, Bryan commenced fabricating a substantially and functionally similar machine for Hambrick. Through the use of trade secrets and

not by inspection of the machine itself, Bryan was able to reduce the time necessary for the design, development and construction of the Hambrick machine. Specifically, a reasonably skilled engineer without knowledge of the development details which Bryan had gained from his employment with Kershaw could not have fabricated a machine for Hambrick in the time in which the Hambrick machine was actually fabricated.

REASONS FOR DENYING THE WRIT

I.

The decision of the Court of Appeals herein does not conflict with the decisions of this Court in *Sears, Roebuck & Co. v. Stiffel*, 376 U.S. 225 (1964) and *Compco Corp. v. Day-Brite Lighting, Inc.*, 376 U.S. 234 (164). The case at bar involves a breach of confidence by a former employee with reference to trade secrets, the breach giving the former employee an unfair advantage over other members of the public and taking unfair advantage of his former employer's rights. Both the *Stiffel* and the *Compco* cases involved the supremacy of federal patent law over state laws which sought under the guise of "unfair competition" to prohibit the copying, *qua* copying, of unpatentable items on the grounds that otherwise customer confusion as to source would result. Neither the *Stiffel* nor the *Compco* case involves any breach of confidence by a former employee. Both cases do involve rather simple items capable of easy copying. Both said decisions hold that a state cannot by blanket prohibition against copying by the public of unpatentable items

grant protection against infringement to such items not otherwise available under federal patent law. There is nothing in said decisions which prohibits a state from imposing sanctions against individuals who as a result of a breach of a confidential relationship are in a position to more quickly duplicate a complex invention than could the public by direct copying.[1]

II.

The Court of Appeals correctly held that the substantive issues in this case must be decided under Texas state law under the doctrine announced by this Court in *Erie R. Co. v. Tompkins*, 304 U.S. 64, 58 Sup. Ct. 817. The fact that decisions in other Circuits announce conflicting results (which is not necessarily conceded) would not be grounds for reversing the opinion of the Court of Appeals for the Fifth Circuit, based on Texas state law. Further, contrary to the contentions made by Petitioners, the decision of the Court of Appeals herein is not a direct departure from its prior decision in *Kinnear-Weed Corp. v. Humble Oil & Refining Co.*, 259 F. 2d 398. In that said opinion, which was rendered in 1958 well prior to the time that Texas law on the subject of injunctive relief against breach of confidence in trade secret cases had been clarified by the Texas Supreme Court, the Fifth Circuit on an issue comparable to that involved herein, merely agreed with the findings of the trial

[1] Respondent shows, by way of aside, that the application for patent on the Kershaw machine was granted in full by the United States Patent Office subsequent to the commencement of this litigation, and that the Kershaw machine is itself protected now against all infringement by virtue of said patent.)

court that the plaintiff-appellant had not furnished any confidential information to the representatives of defendant-appellee. The trial court in its opinion reported in 150 F. Supp. 143 had made special Findings of Fact that at no time had defendant requested the plaintiff to furnish any information, that the information had been volunteered by plaintiff at a time subsequent to the disclosure by plaintiff of the same information to a number of other interested parties similarly situated as was defendant, and that plaintiff had previously made public sales of the item. Further, the *Kinnear-Weed* case did not involve an employee-employer relationship and the time sequences with reference to the disclosure of the alleged trade secrets was not at all comparable to that in this record.

Request is made by Petitioners for this Honorable Court to establish as a matter of federal jurisprudence that an employee has an unemcumbered right to compete with his former employer and to use indiscriminately after termination of employment any and all information he has gained in that employ. As above detailed, Respondent respectfully submits that in the first instance, said considerations involve a state question, not a federal question. Also, the admitted supremacy of the federal patent law in this area does not require invasion of the prerogative of the states to control the incidences of the employee-employer relationship insofar as they pertain to trade secrets.

III.

The decision of the Court of Appeals herein correctly interprets the controlling applicable Texas law. The decisions

of the Supreme Court of Texas in *Hyde Corporation v. Huffines*, 314 S.W. 2d 763, and *K & G Oil Tool & Service Co. v. G & G Fishing Tool Service*, 314 S.W. 2d 782, clearly created a substantive right in Texas in favor of an employer for injunctive relief to prevent damages arising from breach of confidence where trade secrets used by a former employee are involved. The Court of Appeals correctly held that said decisions make the controlling consideration the *breach of confidence* and not the presence or absence of continued secrecy of the information subsequent to the establishment of the confidence. As the Texas Supreme Court noted in the *Huffines* case:

> "Injunctive relief is not based upon the patent but the circumstances that the petitioner gained knowledge of the device prior to the time of its being patented through the abuse of a confidential relationship . . . The essence of their action is not infringement, but breach of faith. It matters not that defendants could have gained their knowledge from the study of the expired patent and plaintiffs' publicly marketed product. The fact is that they did not. Instead, they gained it from plaintiffs via their confidential relationship, and in so doing, incurred a duty not to use it to plaintiffs' detriment."

Since the trial court found that Bryan did not inspect the Kershaw machine which was in the public domain, but fabricated his machine solely by use of information gained in breach of confidence, and since there is support for this finding in the record, the injunctive relief sanctioned by the Texas Supreme Court in the above cited two cases was correctly applied in favor of Respondent by the federal trial court sitting in Texas. In turn, the Court of Appeals correct-

ly relied on said two Texas Supreme Court decisions in affirming the federal trial court's injunction.

Petitioners maintain that the Fifth Circuit holding in *Kinnear-Weed Corp v. Humble Oil & Refining Co.*, 259 F. 2d 398, which affirmed the federal trial court decision reported in 150 F. Supp. 843, established the proposition in Texas jurisprudence that where a trade secret is publicly disclosed by the owner *after* he has revealed it in confidence to another, and the confidant had used it *after* the owner's public disclosure in competition with the former owner, no cause of action for breach of confidence can accrue to the owner. Respondent shows that this is not at all the import or holding of said two cited cases. It is not so for the simple reason that both courts therein found that there was *no* confidential information disclosed by plaintiff to the defendant. Rather, the record there showed clearly that the alleged confidential information had been *previously* disclosed to many others both by way of patent applications, drawings, models, etc., and by way of public sales of the item. To the extent that the quotation cited from the trial court's decision on page 10 of the Petition is subject to that construction given it by Petitioners when pulled out of context, it is clearly *dictum*, at most, when properly read in context.

In support of their position, reliance is placed by Petitioners on the Texas Supreme Court case of *Luccous v. Kinley*, 376 S.W. 2d 336. However, said decision is inapposite, not only because the facts therein do not involve employer-employee relationships of confidence, but further because said decision involves the effects to be given the public dis-

closure inherent in a patent application once same has been granted. Because of the latter feature, the Texas Supreme Court carefully distinguished its prior decisions in the *Huffines* and *G & G Fishing Tool Service* cases, because the *Luccous* case did not involve any "trade secrets." What the *Luccous* case holds is that in a fact situation where a patent has been obtained the subsequent claims of the patent holder for protection of "trade secrets" with reference thereto is incompatible with his election to surrender the protection of secrecy in return for the patent. Since during all times relevant to the case at bar the patent had not issued, obviously the *Luccous* decision is not controlling.

IV.

While the "Question Presented" in this record (not the Question as presented by Petitioners herein, but as modified by Respondent, *supra)* may be of public importance, the appropriate answer to said question for the reasons above stated is to be given by the state judiciary rather than the federal judiciary. Further, Respondent shows that the most appropriate answer is that answer already given by the Texas Supreme Court. The justification for such result is that technological progress is best served by granting protection to the work and ingenuity which is directly applied to the development of a practical and successful device and by restraining any infringement of same by one who later duplicates the result solely by virtue of a breach of confidence.

CONCLUSION

Since the decision of the Court of Appeals below affirming the decision of the trial court based on applicable Texas law was correct, the Petition for Writ of Certiorari herein should be denied.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that copies of the foregoing brief have been duly served on opposing counsel on the 24 day of February, 1967, by depositing same in the United States Post Office at Dallas Texas, first class mail, postage prepaid, addressed to counsel of record at the post office address shown on the Petition.

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In the

Supreme Court of the United States

OCTOBER TERM, 1966

No. 1018

JOHN F. BRYAN, JR. and LESTER N. HAMBRICK,
doing business as TRAKWORK EQUIPMENT COMPANY,
Petitioners,

v.

KERSHAW MANUFACTURING COMPANY,
Respondents.

PETITIONERS' REPLY BRIEF

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PETITIONER'S REPLY BRIEF

To the Honorable Supreme Court of the United States

Petitioners respectfully file this brief in reply to respondent's brief and limit the comments herein specifically to points considered to present error in respondent's brief.

I.

Respondent argues Petitioners' framing of the question of the case. It is submitted that this question framed by Petitioners presents for consideration by this court a burn-

ing issue fairly and clearly raised in this case. Under the rule of this case a skilled employee may not leave his former employer to undertake subsequent employment in competition with the former employer. He is subject to the whim of the former employer. He has no ground on which to proceed in utilizing skills acquired while in former employment. Further, a subsequent employer may not hire any new employee with any degree of confidence and use him in any area competing with the former employer regardless of the extent to which the former employer's information (which once might have been a trade secret) had been utilized in the market place.

In his brief Respondent states (P. 2):

> "The record clearly supports the trial court's 'Finding of Fact' that information divulged by said former employee constituted 'trade secrets' of his employer and was not such information as might have been available to the public by virture of the fact that the machine had been placed in the public domain."

There is no such finding of fact.

To the contrary, the court found:

> "9. As early as 1963, the Kershaw undercutter was publicly used without restriction as to secrecy."
>
> "13. Bryan was aided in the development, design and construction of his undercutter by information (trade secrets) he had acquired by his employment with Kershaw; at the time Hambrick and Bryan began construction of an undercutter, *the substance of such information was of public knowledge by virture of the Kershaw machine being in the public domain, but Bryan did not*

inspect the Kershaw machine or obtain further information from it after his employment with Kershaw was terminated."

The foregoing makes clear that the Kershaw "information (trade secrets)" were in the public domain. Apparently the courts below would have Bryan do a useless act, namely inspect the Kershaw machine just to satisfy a mere formality. Apparently the courts below would accord Bryan a license to use such information had he acted out this drama. Any information gained by Bryan was gained properly and necessarily as an employee. To require him to go back and inspect the Kershaw machine after it was placed in the publice domain and before taking action is a sham and would have been useless since no part on the Trackwork machine is the same as on the Kershaw machine. More than general knowledge of the Kershaw machine would have been of no use to Bryan.

This case hinges on the Courts' finding no 14:

> "Through the use of such information and in breach of confidence Bryan was able to reduce the time necessary for design, development and construction of Hambrick's undercutter, thus resulting in an advantage over competitors."

The holding above that such use of such public information was "in breach of confidence" is shocking. It seems clear that a former employee should be entitled to use information placed by the owner in the public domain. By reason of having such information in the public domain petitioners, as well as any member of the general public, would as a general rule, reduce the time necessary for de-

sign, development and so on. This necessarily follows from the act of placing the information in the public domain. It is one of the facts of life when competing in a free society.

Note the Court's finding of fact 15.

> "Kershaw's undercutter is of such a character that a reasonably skilled engineer or one generally skilled in the art without knowledge of its development details could not have fabricated Hambrick's undercutter in the time period in which said machine was fabricated."

As to this finding of fact it must be clearly understood that the development details were found by the trial court to have been in the public domain and available to anyone in the public. Thus, so far as made public, Petitioner stood as a member of the general public. Bryan thus exercised his right, a civil right, if you please, to utilize his engineering skills along with any public knowledge in making a new machine which the trial court grudgingly admitted was not a "Chinese copy".

At page 4 of the brief, Respondent stated that:

> "Specifically, a reasonably skilled engineer without knowledge of the development details which Bryan had obtained from his employment with Kershaw could not have fabricated the machine for Hambrick in the time in which the Hambrick machine was actually fabricated."

No details, not public, were proven or suggested. Further, should the court review the evidence in this case, it will find that there is *no evidence* to support this position to which Respondent has successfully clung. More particularly, the evidence brought forward by Respondent on this point con-

sists of two questions asked to Respondent's present chief engineer. More particularly, Kershaw's chief engineer, Holley, was asked if a

> "reasonably skilled engineer, without the knowledge of the development details of the Kershaw machine with which you are familiar over the years at Kershaw Manufacturing Company, (would) have been able to fabricate a machine such as the one that you saw had been put together by Mr. Bryan without resort to any information gained during such development process?"

Note that this question does not distinguish between Kershaw's alleged trade secrets and Bryan's general engineering information, and is not limited as to time. Holley's qualified answer was a follows:

> "A. Not in a short time—no."

Counsel then modified the question, limiting it as to span, as follows:

> "Q. Well, suppose I limit the question to a period of time of approximately six months?"

The answer was still qualified and indecisive, and contrary to Finding No. 15, i.e.:

> "A. This would be very difficult for a single individual."

No further questions were asked of Holley or any other witness on this point and no further evidence runs to this point. The foregoing is noted to make clear the basis upon which the decision rests.

This evidence, properly interpreted, means that respondent's chief engineer refused to testify to this important point.

Two opportunities were given to answer the question in the affirmative and in both cases, a direct answer was avoided. The Appellate Court indicated that it would have been "helpful" if the trial court had made a finding that trade secrets continued to exist.

II.

At page 7 of his brief, Respondent would have this Court believe that Bryan fabricated his machine *solely* by use of information gained in breach of confidence. This simply is not fact. Bryan's machine was fabricated under the direction of Hambrick who had seen the Kershaw machine in operation without injunction to secrecy and as a member of the general public. Hambrick gave Bryan "many suggestions" (R 242) in design and construction of the Trakwork machine and specifically dictated that its weight must be much less than that of the Kershaw machine. Uncontraverted in this case is the fact that the Trakwork machine weighs about one-half as much as the Kershaw machine. This alone is evidence of use of engineering skill rather than a copying of Kershaw's machine. Further uncontraverted is a long list of major mechanical differences which show that Bryan did not fabricate his machine "solely by information gained from Kershaw" (R. 262-266).

III.

On page 8, Respondent attacks appellant's application of *Kinnear-Weed Corp. v. The Humble Oil & Refining Co.*, 150 F. Supp. 843 (E.D. Tex. 1956), *aff'd.* 259 F. 2d 398 (5th Cir. 1958). The weakness of Respondent's argument is found

in the fact that Respondent points out that the *Kinnear-Weed* record clearly showed that the alleged confidential information had been previously disclosed to many others, both by way of patent applications, drawings, models, etc. *and by way of public sales of the item.* The latter fact comport with those of the present case. That is, Kershaw's information or trade secrets were in the public domain by way of public use under lease of Kershaw's machine as specifically found by the court. Hambrick saw it as well as others. Thus, *Kinnear-Weed* applies directly to the present case.

IV.

On pages 8 and 9 of their brief, Respondent attacks appellant's reliance upon *Luccous v. Kinley*, 376 S.W. 2d 336 (Tex. 1964). It is contended that the Luccous case holds that where a patent has been obtained, subsequent claims of the patent holder for protection of his "trade secrets" with reference thereto is incompatible with his *election* to surrender the protection of secrecy in return for a patent. In the present case, under 35 U.S.C. § 102(b), Kershaw elected to surrender the protection of secrecy in turn for his right to compete in the public market by placing his device in public use.

The *issue* of a patent does not mark an election. Placing information in the public domain marks the election. Election attaches permanently regardless of whether a timely filed patent application ever matures into a patent. Kershaw's claim based upon his trade secrets is likewise incompatible! In Texas, there exists an aura of uncertainty, cast by two harsh cases, noted on page 7 of *Respondent's*

brief, the *Huffines* case and the *G & G Fishing Tool Service* case, which has spilled over into the area of the present case. Both cases are distinguished on their facts. In the *Huffines* case it was the defendent's act which destroyed plaintiff's trade secrets. In the present case plaintiff, Kershaw, placed Kershay's "information" in the public domain and thus destroyed his trade secrets. In the *G & G Fishing Tool* case there was a breach of an express agreement not to inspect the inside of a fishing tool. Contrary to this agreement, inspection was made and a device was then copied—all contrary to a specific obligation. Such facts do not apply to the present case.

CONCLUSION

Since the question presented in this case was of such wide application and of such great significance to the public and to the general economy, it is submitted that the Petition for Writ of Certiorari should be granted.

Respectfully submitted,

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